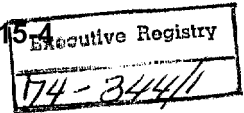


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MEMORANDUM FOR: Director of Central Intelligence
VIA : Deputy Director for Intelligence *EWS*
FROM : Director of Economic Research
SUBJECT : PFIAB: Report on Economic Intelligence, 12/73



1. Attached for your signature is a memorandum to Admiral Anderson, Chairman of the President's Foreign Intelligence Advisory Board (PFIAB), in response to his request for your comments on A Report on Economic Intelligence (Tab A). The report was prepared by Mr. Leo Cherne, a member of PFIAB, and submitted to the President in December 1973.

2. I have discussed this report informally with Wheaton Byers, Executive Secretary of PFIAB, and we agreed that the report places limited responsibility on the DCI and implicitly recognizes that many intelligence problems reflect the manner in which policymaking in the economic area is managed (or rather, not managed). I agree with the tone and most of the substance of the report and believe that your response should be positive and relaxed.

3. The report notes with approval various actions you have taken in response to recommendations contained in the 1971 PFIAB study on economic intelligence and also approves of the formulation of current DCI economic intelligence objectives and plans, including the establishment of an economic NIO and use of the KIQA. The report recommends that the PFIAB maintain a sustained interest in economic intelligence.

4. Mr. Cherne is well aware that the diversity of US foreign economic interests and the unstructured state of foreign economic policymaking makes it impossible for economic intelligence to follow a very orderly process. Moreover, although a considerable amount of foreign economic research is done outside the intelligence community, it is extremely difficult to organize this effort in line with national

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goals. For example, the departments of Agriculture, Interior, and Commerce are strongly influenced by large private constituencies, while the Tariff Commission is largely responsible to Congress.

5. The report states that a great deal of economic intelligence could theoretically be handled "by an able economic research facility without access to classified information", but also recognizes that so long as the needs of policymakers are not being served in some other way, "the intelligence community fulfills a vital purpose in this area." It is true that a great deal of the information and analysis used in economic intelligence production is unclassified, but for effective support on current policy issues classified sources are often critical. Moreover, knowledge of policymakers' needs and concerns is necessary for effective intelligence support and often involves sensitive information. And even where the relevant economic information is unclassified, realistic judgments and estimates may require knowledge of classified political information. With regard to CIA there is another crucial ingredient -- the fact that we are known to be independent.

6. The report criticizes economic intelligence for the lack of effort to obtain consumer feedback and for a tendency to stress quantity rather than quality in production. I believe these criticisms were once well taken, but are no longer, at least for CIA. Consumer feedback is an aspect of the general problem of communication between the intelligence producer and the policy customer. The closer this communication, the better targeted is the intelligence product, the more useful it becomes to the customer, and the more feedback he provides.

7. We have greatly improved our contacts with customers in the past year and they are using us much more effectively than before and providing continuous feedback. About 70% of OER's finished intelligence production is now in response to specific requests, and much of the remainder bears directly on policymakers' obvious needs. At the same time we continue to do building-block research from which policy support will draw, in areas that are not adequately covered by other research organizations.

8. I agree, however, with the report's comment that intelligence is not yet providing the early warning capability in the economic field that it does in the military and political fields, but I would state the problem somewhat differently. Intelligence is too often reportorial and descriptive and not sufficiently evaluative and estimative. It is clearly the job of intelligence to tell the policymaker not only what is going on but what are the present and future implications of these events for the United States.

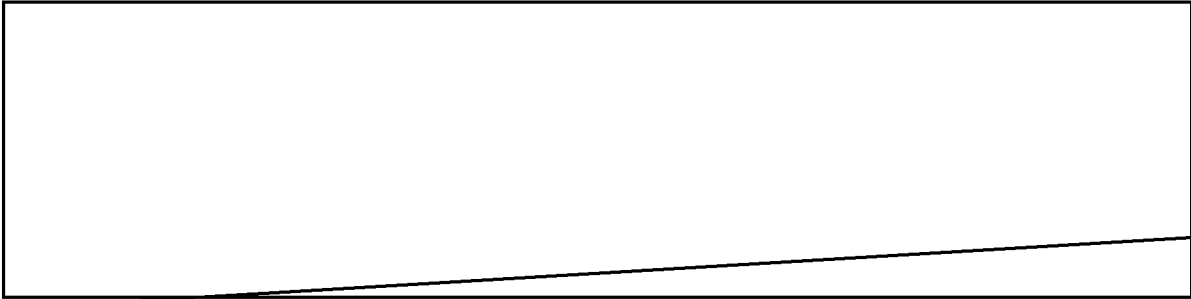
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We are making progress. As one approach to this problem we are providing frequent estimative coverage of key problem areas. CIA's International Oil Developments provides a weekly evaluation of recent international petroleum events. During the past year we published several intelligence briefs providing up-to-date estimates of the outlook for the Soviet grain crops, and, on request, four estimates of world demand of US wheat. We intend to provide more evaluative coverage of international agricultural and commodity developments in the Economic Intelligence Weekly and other publications. We also hope to improve our anticipatory economic intelligence by working to identify economic problems that are not yet but will become of high policy concern. One of the main functions of the economic NIO will be to help organize such an effort.

9. The report notes the need for an effective set of cost-benefit criteria to be applied in the intelligence community. Developing useful general criteria for economic intelligence is especially difficult, partly because of the ad hoc nature of much of the tasking of intelligence production and the fact that economic information is often a joint product with political and military information in intelligence collection. The best way to evaluate economic intelligence production is probably through informal review by competent observers and through case studies, such as the role of intelligence support for various aspects of petroleum policy.

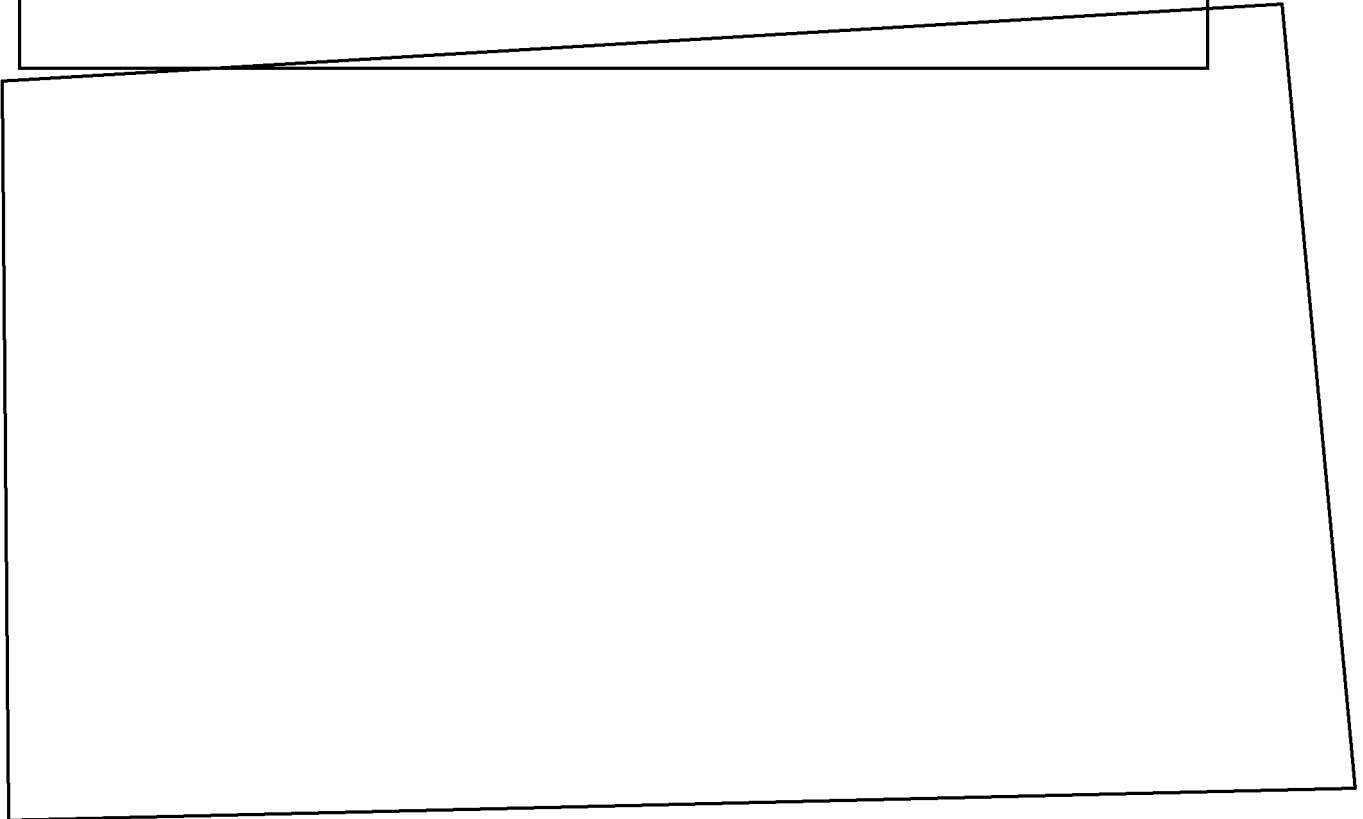
10. The collection of economic intelligence, an area that cuts across institutional and bureaucratic lines, will be of increasing concern to you since its cost could rise substantially in a period of general budgetary retrenchment. The Foreign Service yields us the greatest amount of useful information, and generally at the lowest cost to the US Government. The problem is how to optimize use of the Foreign Service for economic collection purposes, even though it is not part of the National Intelligence Program. Steps are being taken, but higher-level ones may be needed. The EIC has moved to sharpen the statements of requirements for overseas diplomatic posts in the Economic Alert List and to identify those requirements with the highest priority. The next step will be to begin evaluating the responses to these requirements. With respect to high-level tasking, a rejuvenated Requirements Advisory Board (RAB) can be a worthwhile supplement to the existing mechanisms. But you probably will have to take the initiative to reestablish the RAB under NIO and/or NSCIC auspices. (See Tab B).

11. With respect to intelligence collection programs, further intensive study of the needs for and capabilities of each type of collection is needed. OER is continuing its part of a joint study



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MAURICE C. ERNST
Director
Economic Research